

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **The Friendship State Bank, Friendship, Indiana** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **January 17, 1996**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.

INSTITUTION-S RATING: This institution is rated Satisfactory.

The Friendship State Bank's geographic distribution of its credit applications, extensions, and denials demonstrates a reasonable penetration of all segments of its local community. The bank originated a substantial majority of its mortgage and consumer loans within its assessment area. Its loan-to-deposit ratio is more than reasonable, and its assessment area meets the definition and purpose of the CRA, and does not arbitrarily exclude any low or moderate-income areas or residents that it would reasonably be expected to serve.

The following table indicates the performance level of **The Friendship State Bank** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	FRIENDSHIP STATE BANK PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio	X		
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No complaints were received since the previous examination.		

DESCRIPTION OF INSTITUTION

The Friendship State Bank, with total assets of \$49.8 million as of September 30, 1995, is a subsidiary of Friendship BanCorp, Inc., a one-bank holding company. The main office is located in Friendship, Indiana, with two branch offices located in the Cities of Dillsboro and Cross Plains, Indiana. All three locations are full-service and offer a variety of deposit products and services, as well as residential, agricultural, commercial real estate and consumer loans. The bank's processing operation is located at the Cross Plains branch. The bank's primary business focus is to provide household banking services in the form of real estate and consumer loans, and checking and savings accounts. There were no impediments limiting the bank's ability to meet the credit needs of its assessment area, including low or moderate-income areas.

The bank's primary competitors include: Peoples Trust Company, located in Brookville (\$253 million in assets); Ripley County Bank, located in Osgood (\$93 million in assets); and Citizens National Bank of Madison, located in Madison (\$50 million in assets). Other competitors includes Vevay Deposit Bank, located in Vevay (\$48 million in assets); Napoleon State Bank, located in Napoleon (\$47 million in assets); and American State Bank, located in Lawrenceburg (\$42 million in assets).

DESCRIPTION OF THE FRIENDSHIP STATE BANK ASSESSMENT AREA

The bank's assessment area includes portions of Dearborn, Jefferson, Ripley, and all of Ohio and Switzerland Counties. Since the previous examination, the bank has increased the size of its assessment area to include Ohio and Switzerland Counties, and two townships within Jefferson County. This increase was primarily to include whole areas within a political boundary and to have a more uniform equidistant area around the main and branch office locations.

The bank is located in Friendship, Indiana. Friendship is in Ripley County and is approximately 90 miles southeast of Indianapolis, Indiana and 60 miles west of Cincinnati, Ohio. The bank's Cross Plains branch is also located in Ripley County. The Dillsboro branch is located in Dearborn County, which is partially located within the Cincinnati, Ohio Metropolitan Statistical Area (MSA). This portion of the assessment area includes census tracts 805, 806 and 807 of the MSA.

The populations of Friendship, Dillsboro, and Cross Plains are estimated to be 250, 1,800, and 175, respectively. The populations of Dearborn, Jefferson, Ripley, Ohio and Switzerland Counties, according to the 1990 Census, are 38,835; 29,797; 24,614; 5,315; and 7,738, respectively.

Although the three census tracts within the assessment area are not designated as low or moderate-income census tracts, the majority of the assessment area is rural and the residents are considered to have low or moderate income levels, except for portions of Dearborn County which are more urbanized due to their proximity to Cincinnati, Ohio.

Major crops raised in the area include corn, soybeans and tobacco. Major employers in the area include Joseph E. Seagram & Sons, Inc. (Lawrenceburg); Aurora Casket Company (Aurora); Hillebrand Industries, Inc.(Batesville); Muscatatuck State Hospital (Holton); and Indiana Michigan Power Company (Lawrenceburg). In addition, the local school districts and health care facilities provide a number of nonmanufacturing jobs in the community, and many residents commute to nearby Cincinnati for employment.

Three CRA-related community contacts were conducted to assist in the review of the bank's CRA performance. The contacts revealed 30 year fixed-rate mortgages for first time home buyers, government-backed mortgage loan programs and home improvement loans were current credit needs in the assessment area. Recent approval for the development of river boat casinos and the potential for increased tourism and the creation of new jobs, should result in an increase in the demand for affordable housing and infrastructure improvements. In addition, the contacts identified Switzerland County as the lowest income area, which is in need of business development. The bank is noted to have made all types of loan products available to its local assessment area. It was noted that although the bank participates in the Guaranteed Student Loan and Farmers Home Administration Loan Programs, no loans of this type were granted since the previous examination, due to limited loan demand.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

A review of the bank's Consolidated Report of Condition over the past seven quarters revealed loan-to-deposit ratios averaging approximately 83.09%. As of March 1994, the loan-to-deposit ratio was reported as 74.73%. This ratio has remained high and continues to show an increase, except for the quarter ending December, 1995, where the change represents an 11% decline. This decline was primarily due to an approximate 11% increase in total deposits since September, 1995. This ratio is considered strong and is higher than the average ratio for the bank's peer group, for all insured commercial banks having assets between \$25 million and \$50 million with two or less banking offices located in a nonmetropolitan area. The loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and assessment area credit needs. The following chart shows the net loan-to-deposit ratios since the previous examination.

6/94	9/94	12/94	3/95	6/95	9/95	12/95
75.99%	84.26%	81.96%	84.78%	87.65%	88.29%	78.67%

According to the Uniform Bank Performance Report (UBPR), dated September 30, 1995, the

bank's performance compared to peer, is exceptional and exceeds peer by 21.65%. While reviewing the most recent quarter, it was noted that the bank's net loans to average assets continue to exceed that of its peers, while total deposits to average assets continue to be fairly consistent with peer. The bank originates more one-to-four residential, secured farmland, and consumer loans than that of its peers. Based upon a comparison of the bank's loan distribution with information contained in the previous report of examination, (March 31, 1994), residential real estate loans, consumer loans, and agricultural loans increased. The distribution by loan type is illustrated in the following chart.

Loan Type	September 30, 1995 (\$000's)	March 31, 1994 (\$000's)
REAL ESTATE		
Agricultural	5,087	5,302
Residential (1-4)	15,299	11,059
Commercial	2,581	2,976
AGRICULTURAL	3,088	2,425
COMMERCIAL & INDUSTRIAL	3,025	2,892
CONSUMER		
Open-end Credit	171	127
All Other	8,948	6,622
STATE & POLITICAL OBLIGATIONS	0	25

The significant increases noted in residential, agricultural, and consumer lending were attributed to more attractive interest rates, primarily real estate loan rates, when compared to the bank's peer group.

As mentioned previously, only a small portion of the bank's assessment area is located in the Cincinnati, Ohio MSA. The bank originated a total of 150 residential loans in 1994 and 164 in 1995; of which 43 loans were HMDA-reportable in 1994. During the examination review period, June 1994 to December 1995, approximately 91% of these loans were secured by properties located within the bank's assessment area.

The bank conducts a geographic analysis of its loans by zip code. Results of the bank's analysis revealed that approximately 82% of the consumer loans were made to residents within the assessment area. Management periodically reviews the geographic analysis to ensure that lending activity is distributed throughout the assessment area. During the examination, the examiners reviewed the bank's analysis and found high origination rates with approximately 67% of approved loans, located in areas that are close to the main bank and branch offices. Lower loan volume was noted in the area south of the main office.

In addition, the examination sample of approved loans and denied applications was reviewed to determine the bank's geographic distribution of credit. The following chart illustrates this distribution:

LOAN TYPE	TOTAL SAMPLED	WITHIN THE LOCAL ASSESSMENT AREA	PERCENT OF TOTAL
Single Payment	20	19	95%
Installment	20	16	80%
Real Estate	14	14	100%
Credit Card	10	10	100%
Commercial	10	10	100%
Denied	53	39	74%

The examination loan sample further supports the fact that the majority of the bank's loan activity is within the assessment area. Based upon this review and the information provided by management, the bank exceeds the standards for satisfactory performance in relation to loan originations within its assessment area. Additionally, the geographic distribution of loans reflects reasonable dispersion throughout the assessment area.

According to the 1994 HMDA data, the bank originated 25 of the 43 HMDA-reportable real estate loans to low or moderate-income applicants. To further analyze the bank's lending activity to borrowers of different incomes, the 1995 Loan Application Register (LAR) data was reviewed and revealed that the majority of the loans reported were to borrowers of incomes less than the median adjusted income of \$40,666, within the market.

In addition, a review of the bank's credit files revealed that the majority of the applicants applying for business loans were requesting funds in the forms of lines of credit, single-payment or other mortgage-secured loans. Although these loans were not directly traced to the size of the business or the incomes of the borrower, discussions with bank management indicated the average business loan ranged from \$10,000 to \$50,000 depending upon the loan purpose. In most cases, the business loans were to businesses with assets averaging \$200,000. Management stated large dollar amount loans are primarily made by the larger financial institutions who are able to service more complex transactions or products. Additionally, farm loans were not directly traced to sizes of farms although management stated that several of the small business loans were granted to farmers or residents for the purpose of agricultural production. The June 30, 1995 Report of Income and Condition, (the most recent information available), reveals that the majority of the

bank's business and farm loans have original amounts of \$100,000 or less. According to the report, the average loan amount for loans secured by nonfarm nonresidential properties was \$42,552, and commercial and industrial loans were \$18,122. Additionally, the average loan amount for loans secured by farmland was \$41,653, and loans to finance agricultural production and other loans to farmers was \$14,589. Based upon the discussions with management, community contacts and reviews of financial reports, the distribution of borrowers reflects a reasonable penetration among individuals of different income levels, and businesses and farms of different sizes.

The bank solicits credit applications from all segments of its local assessment area. Written policies and procedures have been developed to assure the bank does not discourage or prescreen applicants. The individuals responsible for lending attend various training sessions, on an annual basis, to increase their awareness of CRA-related issues and responsibilities. No violations of the substantive provisions of antidiscrimination laws were found. In addition, no complaints were received by the bank regarding its CRA performance, since the previous examination.